



# STATE OF TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION INSURANCE ADMINISTRATION 1300 William R. Snodgrass Tennessee Tower 312 Eighth Avenue North Nashville, TN 37243

June 30, 2002

#### Ladies and Gentlemen:

We are pleased to submit to you the 2001 Annual Program and Financial Report of the Division of Insurance Administration. This unit of the Department of Finance and Administration manages insurance benefits for over 137,000 public sector employees in Tennessee.

This report reflects our commitment to

- Provide affordable, quality benefits to public sector employees and retirees.
- Expand the use of electronic communication.
- Improve computer systems to provide for the effective recording of eligibility and accounting activity.
- Sponsor managed care health plans with accessible and consistent provider networks.
- Conduct effective assessments of trends in healthcare utilization and benefit costs.
- · Hold our contract partners accountable for their performance.
- Demonstrate value to plan participants when they compare benefit payments with employer and employee contributions.

Our main service is the healthcare coverage administered through the State, Local Education and Local Government Plans. Three observations exemplify 2001.

- For the first time since 1991, the PPO benefit cost per employee increased at double digit rates for two years in a row. During 2000 and 2001, the per employee benefit cost for the POS option increased at double digit rates as well.
- When evaluated on a combined basis, the administrative cost for the healthcare options represented less than ten percent of plan expenses.
- Benefit payments to plan participants were concentrated among a relatively small portion of plan membership. During 2001, 2 percent of the PPO and POS plan members received 30 percent of total benefit payments. The health plans continue to channel financial resources to those individuals who need them the most.

The data presented here demonstrates trends from program, statistical and financial standpoints. The financial statements reflect the fiscal year ended June 30, 2001, with comparative statements for fiscal year 1999-2000.

While the State Group Insurance Program sponsors the coverages and programs reviewed in this report, we work in partnership with ten contractors to deliver services to program participants.

Sincerely,

Richard Chapman, Director

Michael Chym

C. Warren Neel, Commissioner



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#### INTRODUCTION

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# PROGRAM AND STATISTICAL INFORMATION

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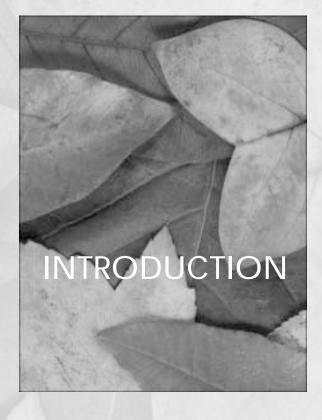
#### FINANCIAL STATEMENTS

State Plan

Local Education Plan

Local Government Plan

Medicare Supplement Program



#### Mission

We offer public sector employees benefits and information which enhance quality of life, represent real value and provide a sense of security.

#### Vision

We establish the standard for top quality benefits by focusing on innovative approaches and a commitment to customer service and satisfaction. We work as a cohesive team in which all employees are valued.

#### DIVISION OVERVIEW

The Division of Insurance Administration operates within the State of Tennessee's Department of Finance and Administration. A committed staff of 39 works to administer health, dental and life insurance coverages for over 268,000 public sector employees, retirees and their covered dependents.

In addition to insurance coverages, the division also administers an Employee Assistance Program and a State Employee Wellness Program. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their physical and mental health.

State Group Insurance Program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who elect to participate in one of the state-sponsored plans. Various quasi-governmental and nonprofit agencies receiving state support may also elect to participate in the Local Government Plan.

Currently, the Preferred Provider Organization (PPO), administered through BlueCross BlueShield of Tennessee, is available to all participants.

A Point of Service (POS) plan is also available statewide. POS plans offered in 2001 included: BlueCross BlueShield – West and Middle and John Deere Health – East.

The Program also offers Health Maintenance Organizations (HMOs) in sixty-two of Tennessee's ninety-five counties. HMO plans offered in 2001 were: Prudential Memphis, HMO Blue, Prudential Nashville, John Deere Health Chattanooga, John Deere Health Knoxville and John Deere Health Tri-Cities.

In addition to health insurance, optional dental coverage, underwritten by Protective Life Insurance Company and administered by Protective DentalCare, is available to participants in all three plans. State employees are provided basic term and accidental death and dismemberment through Fort Dearborn Life while the optional term and universal life coverages are underwritten by Unum/Provident Life and Accident.

#### GOVERNANCE

The authorization for providing group insurance benefits for public officers, state, local education and local government employees and retirees is found in Chapter 27 of Title 8, Tennessee Code Annotated.

The benefit plans authorized by this legislation are governed separately by three committees identified as the State, Local Education and Local Government Insurance Committees. Each of these committees represents the interests of the employer(s) and their employees and retirees in financially separate benefit plans.

The responsibilities of each committee can be summarized under four broad areas:

- 1 To establish the benefit plans offered.
- 2 To approve premiums necessary to fund plan operations.
- 3 To provide for the administration of certain plan functions through the selection of contractors and monitoring of vendor performance.
- 4 To establish and review policy related to eligibility, benefits and appeals.

# Committee Members

C. Warren Neel, Ph.D., Chairman S, E, G

Commissioner

Department of Finance and Administration

John G. Morgan S, E, G Comptroller of the Treasury

Steve Adams S, E, G

State Treasurer

Anne Pope S, E Commissioner

Department of Commerce and Insurance

Jeannie Bellephant S Employee Representative

Neal Wormsley S

Higher Education Representative

Nat Johnson S

Designee, Department of Personnel

Linda McCarty S

Tennessee State Employee Association

Tom Spillman S

Employee Representative

Donna Barber E

Middle Tennessee Teacher Representative

Jim Jones E

Designee, Department of Education

Josephine King E

West Tennessee Teacher Representative

Phillip White E

Tennessee School Boards Association

Clark Justis E

East Tennessee Teacher Representative

Randy Williams G

Tennessee Municipal League

Bob Wormsley G

Tennessee County Services Association

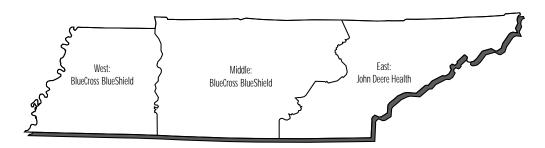
S - State Insurance Committee

E - Local Education Insurance Committee

G - Local Government Insurance Committee

### Service Areas

#### Point of Service (POS)



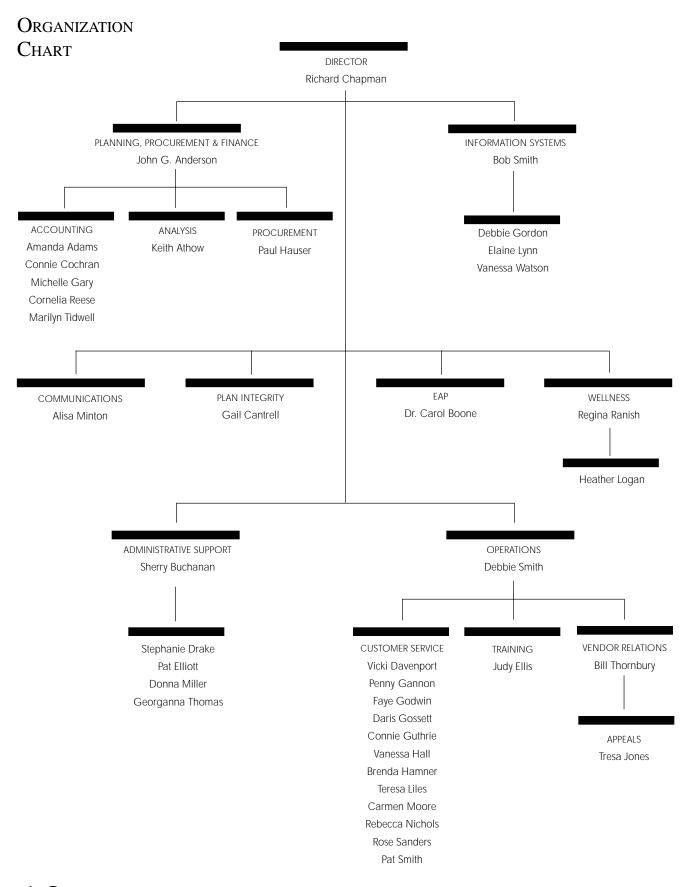
#### Health Maintenance Organization (HMO)



270,885

ENROLLMENT	Total Group Health Lives
HIGHLIGHTS	Employees:
	State PPO

Employees:	
State PPO	34,401
State HMOs	27,016
State POSs	9,858
Local Education PPO	26,922
Local Education HMOs	8,918
Local Education POSs	8,448
Local Government PPO	7,782
Local Government HMOs	8,548
Local Government POSs	5,747
Total Group Health	137,640
Optional Dental Plans	32,492
Optional Life Insurance Products	65,263
Optional Life insurance Froducts	03,203
Retiree Medicare Supplement	20,700



# CONTRACT PARTNERS

We work in partnership with the following entities:

#### BlueCross BlueShield of Tennessee

Providing for administration of healthcare coverage for plan members in the Preferred Provider Organization (PPO), Point of Service (POS) Middle and West, Health Maintenance Organization (HMO) Western Region and Medicare Supplement Programs.

#### John Deere Health

Providing for administration of healthcare coverage for plan members in the Point of Service (POS) East and Health Maintenance Organization (HMO) East.

#### Prudential/Aetna Healthcare

Providing for administration of healthcare coverage for plan members in the Health Maintenance Organization (HMO) Memphis and Nashville.

#### Protective DentalCare

Providing dental insurance to participating plan members statewide.

#### United Behavioral Health

Providing employee assistance program (EAP) services to all plan members and administration of mental health and substance abuse coverage for plan members in the Preferred Provider Organization (PPO) and Point of Service (POS) healthcare options.

#### Gordian Health Solutions

Providing support for wellness program services for central state plan members enrolled in a healthcare option.

#### Unum/Provident Life and Accident Insurance Company

Providing optional term and universal life insurance to state plan members who choose to enroll in this coverage.

#### Fort Dearborn Life Insurance Company

Providing basic term and accidental death and dismemberment insurance for state plan members enrolled in a healthcare option.

#### The MedStat Group

Providing analytical services to assess healthcare utilization and claims-based cost for our population.

#### William M. Mercer, Inc.

Providing benefits and administrative consultant services to the division.

#### ACCOMPLISHMENTS

- At year-end, the number of public sector employees in Tennessee covered by the three statesponsored health insurance plans increased to over 137,000, a six percent increase over the prior year. Total lives covered exceeded 270,000.
- A Request for Proposals (RFP) was issued for the statewide Preferred Provider Organization (PPO). BlueCross BlueShield was selected as the best evaluated proposer and received a three-year contract for the continued provision of PPO services.
- Effective the beginning of 2001, the retiree Medicare supplement plans one and two transitioned to self-insured plans. In addition, the new retiree self-insured PPO maintenance of benefits plan was implemented.
- Implementation was completed on the new BlueCross BlueShield and John Deere Health Point
  of Service (POS) contracts, in addition to the continued transition from Prudential to Aetna for
  the HMOs serving Memphis and Nashville.
- The Division took a leadership role by providing consultation and procurement expertise to
  the Department of Finance and Administration's Center for Effective Government in the
  development of a Request for Proposals to procure compliance and consulting services for the
  Health Insurance Portability and Accountability Act of 1996 (HIPAA).
- Implemented a new late applicant medical underwriting provision to be effective January 1, 2002. This provision allows those eligible individuals who did not enroll when initially eligible the opportunity to demonstrate insurability and enroll for health coverage.
- Through the monitoring of all contracts containing performance guarantees, the division collected \$830,100 in non-compliance penalties.
- During 2001, premium quotes were requested from 152 agencies interested in joining the Local Government Plan. Of those, 88 agencies joined the plan.
- The division adopted a new process whereby new local government agencies joining the plan
  are required to send their insurance preparers to Nashville for an initial training class. A total
  of 18 classes were held with 265 in attendance. Additionally, nine training classes were held
  across the state for existing local government agencies with 167 insurance preparers
  attending.
- The appeals processes established by the Insurance Committees received 443 requests for a benefits review. Of those, 379 cases were resolved prior to being presented to the Staff Review Appeals Committee. Of the remaining 64 cases reviewed by Committee, 25 were approved and 39 denied.
- The Eligibility Review Team reviewed 124 cases. Of these, 77 were approved and 47 denied.
- Continuing efforts to promote electronic communication, our website was expanded to incorporate the on-line completion of forms and on-line registration for seminars and events.
- In an effort to protect the integrity of the state group insurance program and help maintain affordable premium levels, the division conducted an eligibility audit which resulted in the termination of coverage for 500 ineligible married children and 100 ineligible divorced spouses. Exposure to inappropriate claims payments are reduced with each ineligible person removed. Additionally, three cases were sent to the Comptroller's Office for review for possible fraud and were subsequently presented to local district attorneys.

- Successfully implemented a change in eligibility criteria approved by the Local Education Insurance Committee which permits local education agencies to insure their 25-hour noninstructional staff.
- Obtained access to the wage files from the Department of Labor/Workforce Development, Division of Employment Security, permitting the division to audit current enrollment.
- The division participated in a project with the Department of Health's Office of Health Services
  for the purpose of identifying employees enrolled in TennCare who are eligible for state
  coverage. The individuals identified were to be removed from the TennCare roles and
  permitted to join the state group insurance program.
- Invested substantial staff effort in the completion of the analytical and general design phases
  of the multi-year effort to upgrade the Tennessee Insurance System, the program's eligibility
  and enrollment mainframe tool.
- The Employee Assistance Program's (EAPs) Depression and Alcohol Screening Project was further expanded to include on-line screening for Mood and Eating Disorders.
- A total of 8,199 employees participated in 53 EAP supervisory training courses, 180 seminars and 48 employee orientation sessions — an increase of 55 percent over the previous year.
   The EAP also conducted ten employee support sessions following the aftermath of the September 11 terrorist attacks.
- The State Employee Wellness Program initiated a wellness challenge program, Weight 4 Me, which focused on proper nutrition and exercise. A total of 2,099 employees participated in the program with 77 percent of participants indicating weight loss and 39.7 percent reporting an increase in their level of exercise.
- Two optional tests, Prostate Specific Antigen (PSA) and Bone Density (Osteoporosis), were
  provided at wellness screenings during 2001. A total of 558 PSA tests were administered with
  4 percent showing abnormal results and 799 osteoporosis tests indicated 22 percent in the
  abnormal range.
- Reviewed 19 legislative proposals related to the state-sponsored insurance plans as part of the effort to staff the Council on Pensions and Insurance and provided separate analytical overviews of 22 legislative proposals related to healthcare issues.

#### **OPPORTUNITIES**

- Given the double digit increases in medical plan cost that are projected to occur in the future, the division will be working with the Insurance Committees in order to develop future strategies in order to mitigate the impact of these increases for the employer and their employees.
- In response to and support of Senate Joint Resolution 155 adopted in 2001 the division
  will issue a Request for Proposals for the procurement of a new optional Long Term Care
  Insurance Program.
- The current benefits consultant contract with William M. Mercer, Inc. will expire at the end of 2002. The division will issue a Request for Proposals to re-procure this service.
- The State of Tennessee's obligations under the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) are many and varied. The division has committed substantial resources to procure, for the state, contracts through which departments and agencies will work toward achieving compliance with HIPAA.
- The current employee wellness program contract with Gordian Health Solutions will expire at the end of 2002. The division will issue a Request for Proposals to re-procure this service.
- We will have a more ambitious process of matching data on the Tennessee Insurance System
  (TIS) against wage files and marriage, divorce and death records. We will also concentrate on
  auditing agencies at random for the purpose of testing their adherence to the plan's policies
  and provisions.
- Communication projects scheduled for the upcoming year include the update and distribution
  of Insurance Handbooks outlining eligibility and enrollment guidelines, a COBRA brochure
  which has not been issued for approximately five years and a brochure outlining the Appeals
  Process.
- Providing training for enrolled agencies will continue to be a focus for the division, ensuring that employees are provided with the most accurate and up-to-date information available.
- The EAP will continue to enhance the quality of and access to EAP services, striving to
  maintain a yearly utilization rate of 9 percent for employee services. A new monthly newsletter
  will be distributed electronically to employees providing EAP news and tips for healthy wellbeing.

# PROGRAM AND STATISTICAL INFORMATION

#### STATE PLAN

State employees, University of Tennessee and Board of Regents employees comprise the State Plan. This plan provided coverage for 71,275 active employees, COBRA participants and qualified retirees.

Year end enrollment in the PPO increased slightly to 34,401 while enrollment in all HMO options increased to 27,016. Enrollment in all POSs totaled 9,858. Enrollment distributions for 2001 are shown on the following page.

Employees may choose optional dental insurance underwritten by Protective Life Insurance Company and administered by Protective DentalCare. One prepaid dental plan and one preferred provider dental plan were available. State employees electing dental coverage totaled 26,201 at year end, an increase of 2,506 during the calendar year.

During 2001, Fort Dearborn received \$10 million in premium for the basic term life and the accidental death and dismemberment coverages. Expenses reported for 2001 included \$9.1 million in basic term and accidental death and dismemberment claims and \$825,500 in optional accidental death and dismemberment claims. Administrative, reserving and conversion expenses and taxes were \$480,500.

Employee term life benefits exceeded \$6.1 million and were paid on behalf of 178 employees who died during 2001. An additional \$1.3 million in employee accidental death and dismemberment benefits were provided by the plan. Employees received \$348,000 in benefit payments due to the death of a covered dependent and over \$253,000 due to an accident involving the death or dismemberment of a dependent.

At year end 2001, 14,440 employees were covered under the optional term life insurance plan, in addition to 6,954 spouses and 6,190 children. The coverage for employees exceeded \$793 million, spouse coverage was over \$113.5 million and the child term rider amount was \$26.4 million. Premiums for 2001 were \$3.7 million, while claims totaled \$3.4 million.

The optional universal life covered 15,488 employees and 2,511 spouses who maintained over \$322 million in coverage. About \$1.6 million of the annual premium paid for the life benefit with annual claims of \$2.8 million. At the end of December, the employee cash value had grown to more than \$54 million.

There was a substantial increase in total claims payments in the PPO during 2001. Payments per employee were up 12 percent to \$6,671 and payments per capita increased 13 percent to \$3,412. This is attributable to several factors: (all figures below represent claims paid during 2001)

- The total number of covered lives and covered employees continued to decrease. Covered lives fell 1.3 percent from 67,682 in 2000 to 66,730 in 2001. Covered employees fell 0.5 percent from 34,298 in 2000 to 34,134 in 2001. Fewer people using more services equals higher per capita and per employee expenses.
- Although the average length of an inpatient hospital stay remained flat at about 4.6 days, admissions to and days provided in hospitals per 1000 covered lives increased from 72 in 2000 to 74 in 2001.

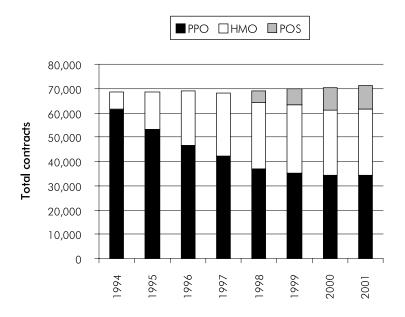
- The cost of hospitalization also increased from 2000 to 2001, with the gross cost per day per plan member increasing by 3 percent.
- With the advent of newer drugs and better outpatient services, fewer people are being admitted to the hospital. The downside is that outpatient utilization and pharmacy expenses are increasing.
- Outpatient per capita expenses increased 16 percent in 2001, from \$2,286 last year to \$2.641.
- Each individual covered by the PPO filed claims for 53 outpatient services in 2001, 4 percent more than the 51 services in 2000.
- The per capita pharmacy benefit for 2001 was \$712.16 28.35 percent more than the \$554.83 per capita in 2000. This number is expected to continue increasing as drug companies develop newer and better drugs designed to reduce hospitalizations and improve people's lives and market them via direct-to-consumer advertising.

Current and future plan costs will continue to be influenced by older employees and retirees who prefer the PPO. Further, with the focus on medical care moving from the inpatient setting to outpatient services and pharmaceuticals, these two areas will continue to drive plan costs.

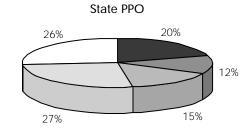
Health Enrollment — December 31, 2001		
	TOTAL CONTRACTS	PERCENT OF TOTAL
Preferred Provider Organization (PPO)		
BlueCross BlueShield	34,401	48.3%
Health Maintenance Organization (HMO)		
Prudential HeathCare Nashville	9,924	13.9%
Prudential HealthCare Memphis	5,568	7.8%
John Deere Health Knoxville	4,604	6.5%
John Deere Health Chattanooga	2,075	2.9%
John Deere Health Tri-Cities	2,051	2.9%
HMO Blue	2,794	3.9%
Point of Service (POS)		
West — BlueCross BlueShield	2,023	2.8%
Middle — BlueCross BlueShield	5,270	7.4%
East — John Deere Health	2,565	3.6%

Optional Insurance Enrollment		
	DEC. 31, 2001	DEC. 31, 2000
Dental Insurance		
Prepaid Plan	20,855	19,819
Preferred Provider Plan	5,346	3,876
Total Dental Insurance	26,201	23,695
Optional Life Coverages		
Term Life	24,607	23,691
Universal Life	8,868	8,846
Special Accident	30,676	30,312
Perma Plan	1,112	1,235

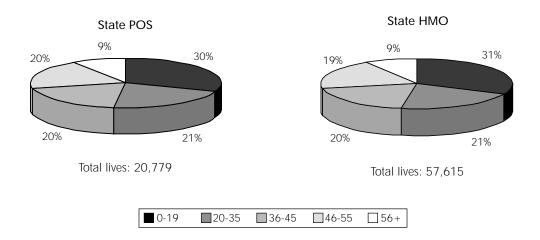
#### Total Contracts by Medical Plan



#### State Plan Demographics 2001



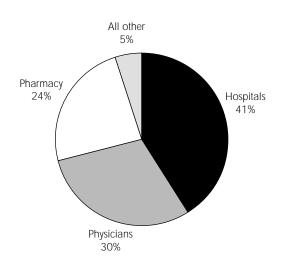
Total lives: 67,476



#### Benefits Distribution by Provider Type (Paid Claims)

State Plan PPO, POS and HMO Total Disbursements: \$333,488,532

Total self-insured paid claims for 2001 increased from \$240,669,773 in 2000. However, some HMO data included in 2001 that was not included in 2000 accounts for a large portion of the increase; the remainder can be attributed to the fact that all health plan options became self-insured on January 1, 2001. As with the Local Education and Local Government plans, the proportionate amount paid to each provider type remained similar to 2000, with an increase to pharmacies and a decrease to physicians.



### STATE EMPLOYEE WELLNESS PROGRAM

The State Employee Wellness Program was designed to improve awareness of the factors that can affect health and longevity, as well as to enable employees to take increased responsibility for their health by adopting healthier life-styles. The program is funded, in part, through flexible benefits savings. The information on this page provides components and participation for the various programs offered by the State Employee Wellness Program.

#### Screenings

In 2001, screenings were held at 26 sites. A total of 3,342 participants were screened, averaging 128 participants per site. Results showed 53 percent of participants having elevated cholesterol levels and 30 percent with elevated blood pressure. Additionally, 68 percent of participants were 20 percent or more above ideal body weight and 59 percent of participants indicated that they exercised two times per week or less.

#### Focused Intervention

Employees participating in screenings who were identified as having two or more high risks were invited to participate in the Focused Intervention or high-risk program. The program was used by 3,037 employees or 34 percent of those eligible. Each participant receives intervention telephone calls and follow-up calls by a health educator over the course of a year.

#### Toll-Free HealthLine

The HealthLine, received 5,280 calls. Health educators answer this line and initiate calls to participants as well. Outgoing calls numbered 13,071.

#### **Seminar Series**

During 2001, one new title was added to the seminar program: Managing My Meds. A total of 2,926 employees participated in one or more of the seminars presented.

#### Babies First Prenatal Program

Designed to encourage early prenatal care, the program is open to female employees, spouses and dependents in the Preferred Provider Organization (PPO) or a Point of Service (POS) plan administered by BlueCross BlueShield. The program provides a \$50 credit or refund to the mother's deductible and copies of two books dealing with newborns. Participation in the program totaled 387 in 2001.

#### Working Well Newsletter

Working Well is an informative newsletter highlighting the State Employee Wellness and Employee Assistance Programs. The newsletter was published six times in 2001 and distributed via state payroll envelopes to approximately 45,000 employees.

#### Fitness Center Discount Program

Fitness centers across the state provide membership discounts to participants in the State Group Insurance Program. Over 7,000 brochures were distributed. When feasible, individuals were directed to the website for information.

The State Employee Wellness Program had a total of 26,426 employee contacts during 2001.

In 1985, the Tennessee General Assembly authorized creation of an insurance plan for local education employees. Funds were appropriated to pay part of the premiums for participating employees beginning January 1, 1986. School systems within the state may join the Local Education Plan or provide alternative coverage that is equal or superior to the state-sponsored program.

At 2001 year end, 128 school systems and educational co-ops were participating in the Local Education Plan. Plan enrollment was 44,288, up from 43,421 in 2000. Year-end enrollment in the PPO was 26,922, while HMO enrollment stood at 8,918. POS enrollment totaled 8,448.

The self-insured Local Education Plan offers only health insurance. Life insurance is not included, nor is it available as an option through the state-sponsored plan.

Dental insurance is available as an option to participants in the Local Education Plan. Participation in the dental plan increased from 2,933 in 2000 to 3,937 in 2001.

In 2001 there was a 13 percent increase in per capita and per employee claims payments for the PPO. This is attributable to several factors: (all figures represent claims paid during 2001)

- The number of covered employees increased 2 percent and the number of covered lives increased 1.7 percent to 26,462 and 48,766 respectively.
- Although the average length of an inpatient hospital stay decreased from 4.4 days in 2000 to 4.3 days in 2001, admissions to and days provided in hospitals per 1,000 covered lives increased from 67 in 2000 to 69 in 2001.
- Outpatient per capita expenses increased 17 percent in 2001, from \$1,991 last year to \$2,334.
- Each individual covered by the PPO filed claims for 48 outpatient services in 2001, 14 percent more than the 42 services in 2000.
- The per capita pharmacy benefit for 2001 was \$591.94 28 percent more than the \$461.31 per capita in 2000.

LOCAL
EDUCATION
PLAN
PARTICIPANTS

Alamo City Schools • Alcoa City Schools • Anderson County Schools • Athens City Schools Bedford County Schools
 Bells City Schools
 Benton County Schools
 Bledsoe County Schools • Bradford Special School District • Bradley County Schools • Bristol City Schools • Campbell County Schools • Cannon County Schools • Carroll County Schools • Carter County Schools • Cheatham County Schools • Chester County Schools • Clay County Schools • Cleveland City Schools • Clinton City Schools • Cocke County Schools • Coffee County Schools • Covington City Schools • Crockett County Schools • Cumberland County Schools • Dayton City Schools • Decatur County Schools • Dekalb County Schools • Dickson County Schools • Dyer County Schools • Dyersburg City Schools • Elizabethton City Schools • Etowah City Schools • Fayette County Schools • Fayetteville City Schools • Fentress County Schools • Franklin County Schools • Franklin Special School District • Gibson County Schools • Giles County Schools • Grainger County Schools • Greene County Schools • Greeneville City Schools • Grundy County Schools • Hamblen County Schools • Hancock County Schools • Hardeman County Schools • Hardin County Schools • Harriman City Schools • Hawkins County Schools • Haywood County Schools • Henderson County Schools • Henry County Board of Education • Hickman County Schools • Hollow Rock - Bruceton Special School District • Houston County Schools • Humboldt City Schools • Humphreys County Schools • Huntingdon Special Schools • Jackson County Schools • Jefferson County Schools • Kingsport City Schools • Knox County Government Retirement and Pension Board • Knox County Schools • Lake County Schools • Lauderdale County Schools • Lawrence County Schools • Lebanon - Tenth District Schools • Lenoir City Schools • Lewis County Schools • Lexington City Schools • Lincoln County Schools • Little TN Valley Education Co-op • Loudon County Schools • Macon County Schools • Manchester City Schools • Marion County Schools • Marshall County Schools • Maury County Schools • McKenzie Special School District • McMinn County Schools • McNairy County School System • Meigs County Schools • Milan Special School District • Monroe County Schools • Moore County Schools • Morgan County Schools • Murfreesboro City Schools • Newport City Schools • Oak Ridge City Schools • Obion County Schools • Oneida Special School District • Overton County Schools • Paris Special School District • Perry County Schools • Pickett County Schools • Polk County Schools • Putnam County Schools • Rhea County Schools • Richard City Special School District • Roane County Schools • Robertson County Schools • Scott County Schools • Sequatchie County Schools • Sevier County Schools • Smith County Schools • South Carroll County Special District • Stewart County Schools • Sullivan County Schools • Sumner County Board of Education • Sweetwater City Schools • Tennessee Education Association • Tipton County Schools • Trenton Special School District • Tri-County Vocational Schools • Trousdale County Schools • Tullahoma City Schools • Unicoi County Schools • Union City Schools • Union County Schools • Van Buren County Schools • Warren County Schools • Washington County Schools • Wayne County Schools • Weakley County Schools • West Carroll Special School District • White County Schools

	TOTAL CONTRACTS	PERCENT OF TOTAL
Preferred Provider Organization (PPO)		
BlueCross BlueShield	26,922	60.8%
Health Maintenance Organization (HMO)		
Prudential HeathCare Nashville	688	1.6%
Prudential HealthCare Memphis	709	1.6%
John Deere Health Knoxville	3,330	7.5%
John Deere Health Chattanooga	453	1.0%
John Deere Health Tri-Cities	1,801	4.1%
HMO Blue	1,937	4.4%

714

4,664

3,070

1.6%

10.5%

6.9%

Optional Enrollment		
	DEC. 31, 2001	DEC. 31, 2000
Dental Insurance		
Prepaid Plan	1,430	1,596
Preferred Provider Plan	2,507	1,337
Total Dental Insurance	3,937	2,933

#### Total Contracts by Medical Plan

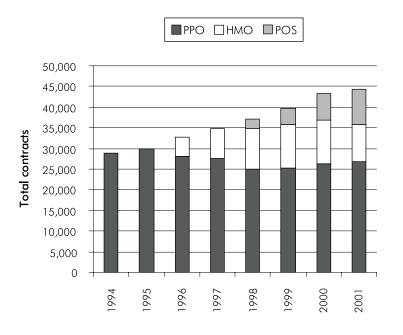
Point of Service (POS)

West — BlueCross BlueShield

East — John Deere Health

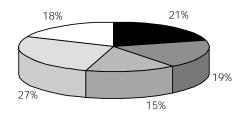
Middle — BlueCross BlueShield

Health Enrollment December 31, 2001



#### Local Education Plan Demographics

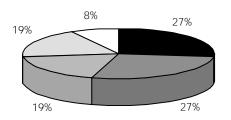
#### Local Education PPO

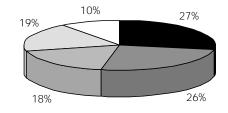


Total lives: 48,718

#### **Local Education POS**

#### Local Education HMO





Total lives: 12,964

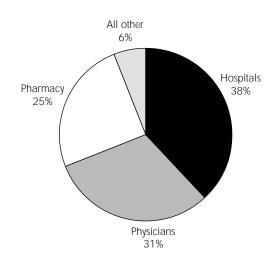
Total lives: 21,607



#### Benefits Distribution by Provider Type (Paid Claims)

Local Education Plan PPO, POS and HMO Total Disbursements: \$179,704,863

Total self-insured paid claims for 2001 increased from \$146,033,257 in 2000. However, some HMO data included in 2001 that was not included in 2000 accounts for a large portion of the increase; the remainder can be attributed to the fact that all health plan options became self-insured on January 1, 2001. As with the other plans, the proportionate amount paid to each provider type remained similar to 2000, with a major increase to pharmacies and a decrease to physicians; hospital payments remained relatively unchanged.



In 1989, the Tennessee General Assembly authorized creation of an insurance plan for local government agency and quasi-governmental agency employees. At 2001 year end, 378 counties, cities and quasi-governmental agencies were participating in the Local Government Plan.

The Local Government Plan enrollment was 22,077 at year end, up from 15,336 in December 2000. Of the total enrollment, 7,782 participated in the PPO, while 8,548 were covered by HMOs. Enrollment in POSs totaled 5,747.

The self-insured Local Government Plan offers only health insurance. No life insurance is included, nor is it available as an option through the state-sponsored plan.

Dental insurance became available as an option to participants in the Local Government Plan in January 1993. Participation in the dental coverage at year end was 2,354.

During 2001, there was a 20.3 percent increase in per capita claims payments and a 22.1 percent increase in per employee claims payments for the PPO. This is attributable to several factors: (all figures represent claims paid during 2001)

- The number of covered lives increased 32 percent to 10,691 and the number of covered employees increased 30 percent to 6,986.
- Although the average length of an inpatient hospital stay decreased from 4.3 days in 2000 to 4.2 days in 2001, admissions to and days provided in hospitals per 1000 covered lives increased from 87 in 2000 to 91 in 2001.
- Outpatient per capita expenses increased 26 percent in 2001, from \$2,100 last year to \$2,654.
- Each individual covered by the PPO filed claims for 55 outpatient services in 2001, nearly 12 percent more than the 49 services in 2000.
- The per capita pharmacy benefit for 2001 was \$678.16 49 percent more than the \$452.60 per capita in 2000.

# LOCAL GOVERNMENT PLAN PARTICIPANTS

Access Service of Middle TN • Adult Community Training • Aging Services of the Upper Cumberland • Aid Distressed Families - Anderson County • Alamo, City of • Alcohol and Drug Council of Middle TN • Anderson County CAC • Appalachian Education Community Corp. • Arc of Hamilton County • Arc of Washington County • Atoka, Town of • Atwood, Town of • Battered Women, Inc. • Bedford County Government • Behavioral Health Initiatives • Belle Meade, City of • Bells, City of • Benton County • Benton County Developmental Services, Inc. • Bethany Home • Better Decisions • Big Sandy, City of • Bledsoe County • Bloomingdale Utility • Blount County CAA • Blountville Utility • Bon Aqua Lyles Utility • Bondecroft Utility • Bradford, City of • Bradley County Government • Bradley/Cleveland CSA • Bradley/Cleveland Services • Bridge Refugee Services • Bridges of Williamson County • Bruceton, Town of • Burns, City of • CADAS (Council Alcohol/Drug) • Camden, City of • Campbell County Government • Campbell County 911 • Care of Savannah, Inc. • Carey Counseling Center • Carroll County General • Carter County Government • Carthage, Town of • Caryville – Jacksboro Utility • Caryville, Town of • CASA - A Child's Voice in Court • CASA of the TN Heartland • CASA, Inc. • Case Management, Inc. • Catoosa Utility District • Center for Independent Living of Middle TN • Centerville, Town of • Cerebral Palsy Center • Cheatham County 911 • Cheatham County General • Cheatham County Highway • Cheatham County Nursing Home • Chester County Highway Department • Children's Advocacy Center • Children's Home Chambliss Shelter • Church Hill, City of • Claiborne County Highway Department • Clarksville Housing Authority • Clarksville/Montgomery County CAA • Clearfork Utility District • Clifton, City of • Clinchfield Senior Center • Clinton, City of • Cocke County Government • Cocke County 911 • Cocke County Highway Department • Coffee County Government • Collegedale, City of • Community Development Center • Community Mediation Services • Community Network Services • Coopertown, Town of • Crisis Intervention Center • Crockett County Government • Crockett County Highway Department • Cross Plains, City of • Crossville, City of • Cumberland Community Options, Inc. • Cumberland County Government • Cumberland Heights • Cunningham Utility District • Dandridge, Town of • Dayton, City of • Decaturville, Town of • Decherd, City of • Dekalb County Government • Developmental Services of Dickson • DeWhite Utility • Dickson Housing Authority • Domestic Violence Intervention Center • Dover, Town of • Dresden, City of • Dyersburg Electric System • East Ridge, City of • East TN CSA • East TN Development District • East TN Foundation • Eastside Utility District • Elkton, City of • Estill Springs, Town of • Fairview, City of • Family and Children's Services • Fayette County Government • Fayette County Public Works • First TN Development District • First Utility of Hawkins County • Forest Hill, City of • Foundations Associates • Franklin County Highway Department • Franklin Consolidated Housing Authority • Franklin County Government • Friends Helping Friends • Friendship, City of • Gallatin Housing Authority • Gallaway, City of • Gatlinburg, City of • Gibson County Government • Gibson County Municipal Water • Gibson, City of • Giles County Government • Giles County 911 • Gladeville Utility District • Gleason, City of • Goodwill Industries Knoxville, Inc. • Gordonsville, Town of • Greenbrier, City of • Grundy County Government • Grundy County Highway • Hamblen County Government • Hamilton County 911 • Hamilton County CSA • Hardin County Government • Hardin County Skills, Inc. • Harpeth Utility District • Harriman, City of • Hartsville/Trousdale County Government • Hawkins County Government • Haywood County Government • Haywood County Highway Department • Henderson, City of • Henderson County Government • Henderson County Highway Department • Henry County Government • Henry County

### LOCAL GOVERNMENT PLAN PARTICIPANTS

Highway Department • Hickman County Government • Highland Rim Economic Corporation Hixson Utility District
 Homeplace, Inc.
 Homesafe of Sumner, Wilson and Robertson County • Hope of East TN • Humboldt Housing Authority • Humboldt, City of • Humphreys County Government • Huntingdon, Town of • Jackson Area Council on Alcohol and Drug Dependence • Jackson Center for Independent Living • James Developmental Center • Jasper, Town of • Jefferson City Housing • Jefferson City, City of • Jefferson County Government • Jefferson County 911 • Johnson County Government • Jubilee Community Arts • Kimball, Town of • Kings Daughters Day Home • Kingsport, City of • Kingsport Housing and Redevelopment Authority • Kingston, City of • Kingston Springs, Town of • Knox County CSA • Knox County Government • Knoxville, City of • Knoxville-Knox County CAC • Lafayette, City of • LaFollette Ambulance • LaFollette Housing Authority • LaGrange, Town of • Lakeland, City of • Lakesite, City of • Lakewood, City of • Lauderdale County Government • Lawrence County Government • Lawrence County 911 • Lawrenceburg, City of • Lawrenceburg Housing Authority • Lexington, City of • Linden, City of • Livingston, Town of • Loretto, City of • Lynnville, City of • Madison County CASA • Madison Suburban Utility • Mallory Valley Utility • Manchester Housing Authority • Marion County 911 • Marion County Government • Marion County Highway Department • Martin, City of • Mason, Town of • McKenzie, City of • McMinn County Government • McMinnville, City of • McNairy County Development Services • McNairy County Government • Medina, City of • Memphis and Shelby County CHA • Memphis Center for Independent • Mental Health Association of Middle TN • Metropolitan Inter-Faith Association • Mid-Cumberland CAA • Mid-Cumberland CHA • Mid-Cumberland HRA • Mid-East CAA • Mid-TN Supported Living, Inc. • Midtown Mental Health Center • Midtown Utility District • Milan, City of • Milan Public Utilities • Minor Hill, City of • Minor Hill Water Utility District • Monteagle, Town of • Morgan County Government • Morgan County Highway Department • Morgan County Solid Waste • Mt. Carmel - Hawkins SCC • Munford, City of • NAMI TN - Knoxville • Nashville Cares • Nashville Thermal Transfer Corporation • National Healthcare for the Homeless Council • New Directions • New Horizons Corporation • New Johnsonville, City of • North Utility of Decatur/Benton County • Northeast Community Services Agency • Northeast Henry County Utility • Northwest CHA • Northwest Dyersburg Utility • Northwest TN Economic Development Council • Oak Ridge, City of • Oak Ridge Housing Authority • Obion County Government • Obion County Highway Department • Old Hickory Utility • Op-Act Inc. • Orange Grove Center • Orlinda, City of • Overton County Government • Paris, City of • Park Center, Inc. • Partners in Placement • Pathfinders, Inc. • Pegram, Town of • Perry County Highway Department • Petersburg, Town of • Pleasant View, Town of • Portland, City of • Progress, Inc. • Puryear, City of • Putnam County Government • Rape and Sexual Abuse Center • Red Bank, City of • Rhea County Government • Rhea Nursing Home • Rhea Richland Senior Neighbors, Inc. • Ridgetop, City of • Ripley, City of • Ripley Gas/Water • Roane County Government • Roane County 911 • Robertson County Government • Rochelle Center • Rossville, Town of • Rutherford County Adult Action Center • Rutherford, Town of • Savannah, City of • Scott County Government • Scotts Hill, Town of • Second South Cheatham Utility District • Senior Citizens, Inc. • Sequatchie County Government • Sequatchie Valley EMS, Inc. • Sequatchie Valley Planning • Serenity Recovery Center • Sertoma Center • Sevierville Water Department • Sexual Assault Crisis CNT • Sharon, City of • Shelby County 911 • Shelby Residential and Vocational Services, Inc. • Shelter, Inc. • Signal Centers • Siskin Foundation • Smith County Government • Smith County Highway Department • Smithville, City of • Soddy-

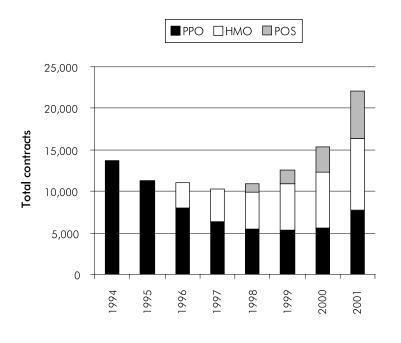
# LOCAL GOVERNMENT PLAN PARTICIPANTS

Daisy Falling Water Utility • South Carthage, Town of • South Central CHA • South Central TN Development District • South Central Tourism • South Pittsburg, City of • Southeast Mental Health Center • Southeast Regional CHA • Southeast TN Development District • Southwest CHA • Southwest Human Resource Agency • Springfield, City of • St. Joseph, City of • Statewide Independent Living Council of TN • Stewart County Government • Stewart County Highway Department • Sullivan County 911 • Sweetwater, City of • Team Evaluation Assessment and Management • Team Evaluation Center • Temporary Residence for Adolescents and Crisis • TN Alcohol and Drug Association • TN Association of County Executives • TN Business Enterprises • TN County Commissioners Association • TN Conference of Social Welfare • TN County Highway Officials • TN County Services Association • TN Historical Society • TN Lawyers Assistance Program • TN Mental Health Consumers Association • TN Museum Foundation • TN Opportunity Program, Inc. • TN School Boards Association • TN Secondary School Athletic Association • TN State Veterans Home - Humboldt • TN Veterans Home • TN Victims Coalition • Tipton County Government • Tipton County 911 District • Tiptonville, Town of • Troy, Town of • Tullahoma Housing Authority • Tullahoma Utilities • Turnbull Utility District • Twenty-first Century Economic and Development • Twenty-first Drug Task Force • Ujima House • Unicoi, Town of • Union City Electric System • Upper Cumberland CHA • Upper Cumberland Development District • Upper East TN HAD • Urban Housing Solutions • Volunteer Memphis • Walden, Town of • Warren County Government • Wartburg, City of • Wartrace, Town of • Waynesboro, City of • Weakley County Government • Weakley County 911 • Weakley County Municipal Electric System • Webb Creek Utility • West Eight County Association of SCDs • West Overton Utility • West TN Special Technical Access Resource • White Bluff, City of • Whitwell, City of • Winchester, City of

Health Enrollment December 31, 2001		
	TOTAL CONTRACTS	PERCENT OF TOTAL
Preferred Provider Organization (PPO)		
BlueCross BlueShield	7,782	35.2%
Health Maintenance Organization (HMO)		
Prudential HeathCare Nashville	843	3.8%
Prudential HealthCare Memphis	1,034	4.7%
John Deere Health Knoxville	3,520	15.9%
John Deere Health Chattanooga	922	4.2%
John Deere Health Tri-Cities	868	3.9%
HMO Blue	1,361	6.2%
Point of Service (POS)		
West — BlueCross BlueShield	777	3.5%
Middle — BlueCross BlueShield	2,266	10.3%
East — John Deere Health	2,704	12.2%

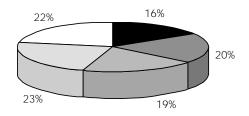
Optional Enrollment		
	DEC. 31, 2001	DEC. 31, 2000
Dental Insurance		
Prepaid Plan	1,552	1,391
Preferred Provider Plan	802	513
Total Dental Insurance	2,354	1,904

#### Total Contracts by Medical Plan



#### Local Government Plan Demographics

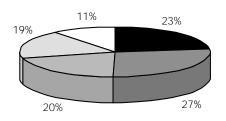
#### Local Government PPO

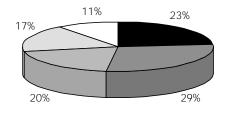


Total lives: 8,577

#### Local Government POS

#### Local Government HMO





Total lives: 4,925

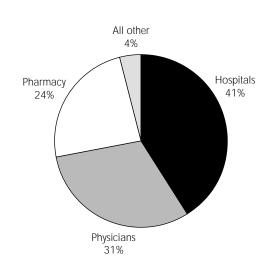
Total lives: 11,476



#### Benefits Distribution by Provider Type (Paid Claims)

Local Government Plan PPO, POS and HMO Total Disbursements: \$79,504,393

Total self-insured paid claims for 2001 increased from \$42,968,175 in 2000. The greatest contributing factor was the increase in total covered lives in the Local Government Plan during 2001 for all health options. Covered lives increased from approximately 24,978 at the end of 2000 to 36,109 at the end of 2001 — a 44.5 percent increase. As with the other plans, the proportionate amount paid to each provider type remained similar to 2000, with an increase to pharmacies and a decrease to physicians and hospitals.



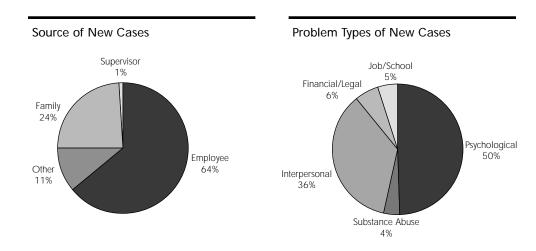
### EMPLOYEE ASSISTANCE PROGRAM

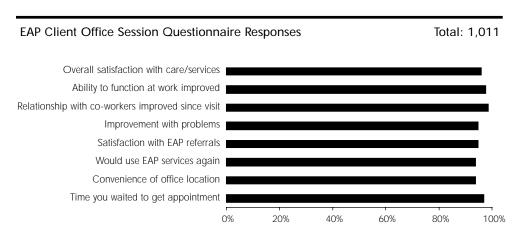
The Employee Assistance Program (EAP) provides counseling and referral services for personal and workplace problems. Eligible employees and their dependents may receive up to six counseling sessions per problem episode at no direct cost. If more intensive treatment is needed, individuals may receive care through their insurance plan's mental health or substance abuse coverage. Training programs include employee orientations and supervisory training classes on the EAP services. Noon-hour seminars on mental health topics of interest are held in nine locations across the state quarterly and upon request by agencies, departments and schools.

The program is available to all state and higher education employees/dependents who are eligible to participate in the State Group Insurance Program and all local education and local government employees who participate in a state-sponsored health plan.

United Behavioral Health, the vendor contracted to provide EAP counseling services, reported 8,170 members accessing EAP services for the year. Of those served, 5,358 were new cases.

Participation in consultation and training services have greatly increased over last year; 8,206 employees were served during 2001 — a 60 percent increase over 2000. Agencies, departments and schools contacted the EAP to provide assistance to staff units. In the aftermath of the September 11 terrorist attacks, the EAP provided several support sessions across the state. Critical stress debriefings have become a mainstay of the program with managers requesting the EAP to come onsite to address problems facing their work group.





The management of mental health and substance abuse benefits through United Behavioral Health for the Integrated Employee Assistance and Behavioral Health program has continued to result in patients receiving care in more clinically appropriate and less costly settings.

As noted in the data, inpatient utilization, as reflected in admissions and days of care per 1,000 plan members increased slightly from 2000 to 2001. Partial hospital rates and intensive outpatient rates also increased since 2000. However, through a combination of improved benefit design and improved clinical management, quality and access to appropriate levels of care continues to improve as well as contributing to a substantial decrease in cost overall.

2001 Employee Utilization as a percent of all plan members		EAP Referral Utilization by F	Plan
		State Plan	70%
Counseling Services Utilization	4.8%	Local Education Plan	19%
Training Utilization	5.6%	Local Government Plan	11%

# Mental Health and Substance Abuse Outpatient Utilization — PPO and POS Combined Plans

	NUMBER OF PATI	ENTS REVIEWED	SESSIONS PER 1,000*	
	2001	2000	2001	2000
Outpatient	7,674	3,919	358.4	354.9
Intensive Outpatient	110	53	13.2	17.4
Partial Hospitalization	73	44	7.1	12.4

# Mental Health and Substance Abuse Inpatient Utilization — PPO and POS Combined Plans

NUMBER OF C	ASES REVIEWED	ADMISSIONS	PER 1,000*	DAYS PER	1,000*
2001	2000	2001	2000	2001	2000
362	258	3.6	3.7	22.7	21.3

# Total Utilization and Cost Summary — PPO and POS Combined Plans

		AMOUNT PAID 2001
Outpatient Sessions	35,787	\$1,729,789
Intensive Outpatient Sessions	2,003	328,082
Inpatient Days	2,261	892,082
		\$2,949,953

<sup>\*</sup>per 1,000 covered individuals

Since January 1989, the state has maintained a benefits program for Medicare-eligible, retired teachers and state employees. The program involves two elements: the sponsorship of Medicare supplement coverage and the provision of financial support for participating retirees.

Under the present structure, the Medicare Supplement Program offers three benefit options. Plans One and Two were changed at the beginning of 1998 to comply with standard plan requirements established by the National Association of Insurance Commissions (NAIC). Plan One matches the NAIC level D benefits. Plan Two offers level H benefits. Based upon action taken by the State Insurance Committee in September 2000, qualified retirees were offered the opportunity to select a third option to supplement Medicare benefits. Plan Three provides benefits that, when combined with Medicare, resemble the PPO option available to employees; the major portion of the benefits are paid for prescription drugs.

For 2001, the average enrollment in Plan One was 4,462. Plan Two enrollment averaged 14,624. Total enrollment increased about 4 percent compared to 2000. Enrollment in Plan Three was 1,614 at year end.

The contract with BlueCross BlueShield for this coverage has contained a requirement that excess premiums be refunded to the state program on behalf of participating retirees. Half the excess premiums are returned at the end of the year; the balance at the end of the contract. Through the end of 2001, over \$16 million had been returned to the state under this contract requirement that was added at the beginning of 1992. These funds have resulted in reduced premiums for participating retirees through direct payment of part of the monthly retiree contribution. For 2001, the program was changed to a self-insured plan with payment of an administrative fee to BlueCross to pay for claims processing and customer service. Funds previously returned to the state or resulting from the 2001 year operation have been obligated to establish reserves for incurred but unreported claims and for claims expense fluctuations. By making these changes, administrative expenses were lowered, premium taxes were avoided and premium levels were more closely matched to anticipated benefit payments. For 2001, Plan One premium remained unchanged and Plan Two contributions increased by 6.38 percent.

The state's financial support is based on a retiree's length of service. Retired teachers and state employees receive \$40 a month toward their premium if they have 30 or more years of service. For 20 to 29 years of service, they receive \$30 a month; for 15 to 19 years of service, they receive \$20 per month. The current support levels were set in July 1998.

This support is provided to Medicare Supplement Program participants and to retired teachers in school districts which sponsor employee medical plans and permit Medicare eligible retirees to continue coverage during retirement.

For 2001, financial support was provided to about 16,850 retirees each month, with an estimated annual cost of \$6.9 million.

# FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS

The following unaudited financial statements presented on pages 37-48 for the State Plan, Local Education Plan, Local Government Plan and Medicare Supplement Program disclose the financial position and the results of operations for the year ended June 30, 2001. The Department of Finance and Administration, Division of Insurance Administration prepared these statements which summarize transactions for all coverages available through each plan. The complete financial statements, accompanying notes and supplemental schedules are included in the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee. The CAFR was prepared by the Department of Finance and Administration, Division of Accounts and was audited by the Comptroller of the Treasury, Division of State Audit.

#### STATE PLAN

Comparative Balance Sheet		
	30-JUN-01	30-JUN-00
Assets		
Cash	\$ 68,331,949	\$ 91,695,321
Insurance Accounts Receivable	16,863	15,715
Accounts Receivable	 188,849	334,533
Total Assets	\$ 68,537,661	\$ 92,045,569
Liabilities and Fund Equity		
Accrued Liabilities	\$ 42,468,950	\$ 34,391,329
Accounts Payable	886,540	1,279,438
Deferred Revenue	 17,724,546	15,390,838
Total Liabilities	\$ 61,080,036	\$ 51,061,605
Fund Equity	 7,457,625	40,983,964
Total Liabilities and Fund Equity	\$ 68,537,661	\$ 92,045,569

# STATE PLAN

Comparative Statement of Revenues, Expens	es, and C	Changes in Fund	l Equ	ity
		30-JUN-01		30-JUN-00
Operating Revenues				
Premiums	\$	284,209,511	\$	226,601,487
Other		37,621		6,061
Total Operating Revenues	\$	284,247,132	\$	226,607,548
Operating Expenses				
Benefits/Claims	\$	279,961,520	\$	211,524,973
Less: Insurance Recoveries		(2,989,701)		(8,689,768)
Administrative Services		2,594,611		2,417,572
Contract Services		26,200,162		23,830,618
Insurance Premiums		16,868,300		9,469,183
Total Operating Expenses	\$	322,634,892	\$	238,552,578
Operating Income (Loss)	\$	(38,387,760)	\$	(11,945,030)
Non-Operating Revenues				
Interest Income	\$	4,452,326	\$	5,362,962
Total Non-Operating Revenues	\$	4,452,326	\$	5,362,962
Loss Before Transfer	\$	(33,935,434)	\$	(6,582,068)
Operating Transfers from General Fund		409,095		309,816
Net Income (Loss)/Change in Retained Earnings	\$	(33,526,339)	\$	(6,272,252)
Fund Equity, July 1	_	40,983,964		47,256,216
Fund Equity, June 30	\$	7,457,625	\$	40,983,964

# STATE PLAN

Comparative Statement of Cash Flows		
	30-JUN-01	30-JUN-00
Cash Flows From Operating Activities		
Receipts from Interfund Services Provided	\$ 191,019,499	\$ 175,296,466
Receipts from Customers and Users	136,384,530	129,955,850
Payments to Suppliers	(353,034,211)	(314,148,770)
Payments for Interfund Services Used	(2,594,611)	(2,417,572)
Net Cash From (Used For) Operating Activities	\$ (28,224,793)	\$ (11,314,026)
Cash Flows From Noncapital Financing Activities		
Operating Transfers In	\$ 409,095	\$ 309,816
Net Cash From Noncapital Financing Activities	\$ 409,095	\$ 309,816
Cash Flows From Investing Activities		
Interest Received	\$ 4,452,326	\$ 5,362,962
Net Cash From Investing Activities	\$ 4,452,326	\$ 5,362,962
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (23,363,372)	\$ (5,641,248)
Cash and Cash Equivalents, July 1	91,695,321	97,336,569
Cash and Cash Equivalents, June 30	\$ 68,331,949	\$ 91,695,321
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (38,387,759)	\$ (11,945,030)
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash From Operating Activities		
(Increase) Decrease in Accounts Receivable	\$ 144,536	\$ 1,288,340
Increase (Decrease) in Accounts Payable	7,684,722	(707,019)
Increase (Decrease) in Deferred Revenue	2,333,708	49,683
Total Adjustments	\$ 10,162,966	\$ 631,004
Net Cash From (Used For) Operating Activities	\$ (28,224,793)	\$ (11,314,026)

Comparative Balance Sheet		
	30-JUN-01	30-JUN-00
Assets		
Cash	\$ 14,789,255	\$ 20,232,551
Accounts Receivable	99,298	115,905
Total Assets	\$ 14,888,553	\$ 20,348,456
Liabilities and Fund Equity		
Accrued Liabilities	\$ 24,429,538	\$ 17,516,092
Accounts Payable	4,719	2,194
Deferred Revenue	480,901	369,908
Total Liabilities	\$ 24,915,158	\$ 17,888,194
Fund Equity	(10,026,605)	2,460,262
Total Liabilities and Fund Equity	\$ 14,888,553	\$ 20,348,456

Comparative Statement of Revenues, Expens	es, and C	changes in Fund	l Equ	ity
		30-JUN-01		30-JUN-00
Operating Revenues				
Premiums	\$	165,465,994	\$	125,957,712
Insurance Forfeitures		172		(187)
Total Operating Revenues	\$	165,466,166	\$	125,957,525
Operating Expenses				
Benefits/Claims	\$	163,315,870	\$	113,759,975
Less: Insurance Recoveries		(1,739,978)		(3,953,647)
Administrative Services		1,135,178		978,019
Contract Services		14,825,506		10,068,315
Insurance Premiums		5,216,172		7,979,762
Total Operating Expenses	\$	182,752,748	\$	128,832,424
Operating Income (Loss)	\$	(17,286,582)	\$	(2,874,899)
Non-Operating Revenues				
Interest Income	\$	1,009,658	\$	961,763
Total Non-Operating Revenues	\$	1,009,658	\$	961,763
Income (Loss) Before Operating Transfer	\$	(16,276,924)	\$	(1,913,136)
Operating Transfer from General Fund		3,790,057		2,679,892
Net Income (Loss)/Change in Retained Earnings	\$	(12,486,867)	\$	766,756
Fund Equity, July 1		2,460,262		1,693,506
Fund Equity, June 30	\$	(10,026,605)	\$	2,460,262

Comparative Statement of Cash Flows		
	30-JUN-01	30-JUN-00
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 169,470,184	\$ 144,694,708
Payments to Suppliers	(178,578,017)	(143,326,992)
Payments for Interfund Services Used	(1,135,178)	(978,019
Net Cash From (Used For) Operating Activities	\$ (10,243,011)	\$ 389,697
Cash Flows From Noncapital Financing Activities		
Operating Transfers In	\$ 3,790,057	\$ 2,679,892
Net Cash From Noncapital Financing Activities	\$ 3,790,057	\$ 2,679,892
Cash Flows From Investing Activities		
Interest Received	\$ 1,009,658	\$ 961,763
Net Cash From Investing Activities	\$ 1,009,658	\$ 961,763
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (5,443,296)	\$ 4,031,352
Cash and Cash Equivalents, July 1	20,232,551	16,201,199
Cash and Cash Equivalents, June 30	\$ 14,789,255	\$ 20,232,551
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (17,286,582)	\$ (2,874,899
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash From Operating Activities		
(Increase) Decrease in Accounts Receivable	\$ 16,607	\$ 857,884
Increase (Decrease) in Accounts Payable	6,915,971	2,290,068
Increase (Decrease) in Deferred Revenue	110,993	116,644
Total Adjustments	\$ 7,043,571	\$ 3,264,596
Net Cash From (Used For) Operating Activities	\$ (10,243,011)	\$ 389,697

# REQUIRED SUPPLEMENTARY INFORMATION

The table below illustrates how the Local Education Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Education Group Insurance Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Fund including overhead. (3) This line shows the Fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section shows the cumulative amounts paid as of the end of successive years for each fiscal year, some of these amounts are unavailable. (5) This section shows how each fiscal year's incurred claims increased or decreased as of the end of successive years, some of these amounts are unavailable for prior years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal years.

Ten-Year Claims Developr	ment Information	(express	ed in tho	usands)						
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Net earned required contrib	oution									
and investment revenues	51,804	63,291	75,715	79,410	83,340	95,185	109,968	123,419	126,918	166,476
(2) Unallocated expenses	991	1,234	2,224	1,794	3,722	3,768	5,193	6,685	13,261	15,961
(3) Estimated incurred claims a	nd									
expense, end of fiscal year	51,605	58,521	69,157	73,741	78,678	86,086	79,297	93,546	113,760	163,316
(4) Paid (cumulative) as of:										
End of fiscal year	*	*	*	*	*	*	*	75,858	101,006	141,027
One year later	*	*	*	*	*	*	*	86,595	114,907	
Two years later	*	*	*	*	*	*	*	86,938		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(5) Reestimated incurred claims	s and expense:									
End of fiscal year	51,605	58,521	69,157	73,741	78,678	86,086	79,297	93,546	113,760	163,316
One year later	*	*	*	*	*	*	*		115,360	
Two years later	*	*	*	*	*	*	*	86,938		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(6) Increase (decrease) in estim										
incurred claims and expens										
from end of fiscal year	0	0	0	0	0	0	0	(6,608)	1,600	0
* Data Not Available										

Comparative Balance Sheet		
	30-JUN-01	30-JUN-00
Assets		
Cash	\$ 11,665,073	\$ 16,284,136
ACH Debit Receivable	16,262	16,463
Insurance Accounts Receivable	77	2,794
Accounts Receivable	 64,214	72,888
Total Assets	\$ 11,745,626	\$ 16,376,281
Liabilities and Fund Equity		
Accrued Liabilities	\$ 9,250,149	\$ 3,910,090
Accounts Payable	7,668	5,793
Deferred Revenue	69,039	73,311
Total Liabilities	\$ 9,326,856	\$ 3,989,194
Fund Equity	 2,418,770	12,387,087
Total Liabilities and Fund Equity	\$ 11,745,626	\$ 16,376,281

Comparative Statement of Revenues, Expens	es, and C	hanges in Fund	l Equi	ity
		30-JUN-01		30-JUN-00
Operating Revenues				
Premiums	\$	57,685,216	\$	36,816,112
Other		1,766		_
Insurance Forfeitures		(171)		175
Total Operating Revenues	\$	57,686,811	\$	36,816,287
Operating Expenses				
Benefits/Claims	\$	61,323,544	\$	28,824,967
Less: Insurance Recoveries		(477,782)		(225,866)
Administrative Services		519,334		354,664
Contract Services		5,795,815		2,734,873
Insurance Premiums		1,400,554		4,505,727
Total Operating Expenses	\$	68,561,465	\$	36,194,365
Operating Income (Loss)	\$	(10,874,654)	\$	621,922
Non-Operating Revenues				
Interest Income	\$	906,337	\$	912,430
Total Non-Operating Revenues	\$	906,337	\$	912,430
Net Income (Loss)/Change in Retained Earnings	\$	(9,968,317)	\$	1,534,352
Fund Equity, July 1		12,387,087		10,852,735
Fund Equity, June 30	\$	2,418,770	\$	12,387,087

Comparative Statement of Cash Flows		
	30-JUN-01	30-JUN-00
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 60,246,486	\$ 43,756,525
Payments to Suppliers	(65,252,552)	(42,135,268)
Payments for Interfund Services Used	(519,334)	(354,664)
Net Cash From (Used For) Operating Activities	\$ (5,525,400)	\$ 1,266,593
Cash Flows From Investing Activities		
Interest Received	\$ 906,337	\$ 912,430
Net Cash From Investing Activities	\$ 906,337	\$ 912,430
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (4,619,063)	\$ 2,179,023
Cash and Cash Equivalents, July 1	16,284,136	14,105,113
Cash and Cash Equivalents, June 30	\$ 11,665,073	\$ 16,284,136
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (10,874,654)	\$ 621,922
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash From Operating Activities		
(Increase) Decrease in Accounts Receivable	\$ 11,592	\$ (1,144)
Increase (Decrease) in Accounts Payable	5,341,934	650,481
Increase (Decrease) in Deferred Revenue	(4,272)	(4,666)
Total Adjustments	\$ 5,349,254	\$ 644,671
Net Cash From (Used For) Operating Activities	\$ (5,525,400)	\$ 1,266,593

# REQUIRED SUPPLEMENTARY INFORMATION

The table below illustrates how the Local Government Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Government Group Insurance Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Fund including overhead. (3) This line shows the Fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section shows the cumulative amounts paid as of the end of successive years for each fiscal year, some of these amounts are unavailable. (5) This section shows how each fiscal year's incurred claims increased or decreased as of the end of successive years, some of these amounts are unavailable for prior years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal years.

Ten-Year Claims Development Ir	nformation	(express	sed in the	ousands)						
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Net earned required contribution										
and investment revenues	21,805	30,633	41,819	40,589	34,857	34,944	33,846	38,187	37,728	58,593
(2) Unallocated expenses	519	621	1,267	852	1,425	1,184	1,335	1,732	4,251	6,315
(3) Estimated incurred claims and										
expense, end of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499	20,244	28,825	61,324
(4) Paid (cumulative) as of:										
End of fiscal year	*	*	*	*	*	*	*	16,765	26,195	52,187
One year later	*	*	*	*	*	*	*	18,948	30,257	
Two years later	*	*	*	*	*	*	*	19,003		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(5) Reestimated incurred claims and ex	pense:									
End of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499	20,244	28,825	61,324
One year later	*	*	*	*	*	*	*	19,023	30,376	
Two years later	*	*	*	*	*	*	*	19,003		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(6) Increase (decrease) in estimated										
incurred claims and expense										
from end of fiscal year	0	0	0	0	0	0	0	(1,241)	1,551	0

<sup>\*</sup> Data Not Available

Balance Sheet	
	30-JUN-01
Assets	
Cash	\$ 11,352,571
Total Assets	\$ 11,352,571
Liabilities and Fund Equity	
Accrued Liabilities	\$ 1,027,306
Deferred Revenue	236,587
Total Liabilities	\$ 1,263,893
Fund Equity	10,088,678
Total Liabilities and Fund Equity	\$ 11,352,571

Statement of Revenues, Expenses and Changes in Fund	Equity	
		30-JUN-01
Operating Revenues		
Premiums	\$	19,954,259
Total Operating Revenues	\$	19,954,259
Operating Expenses		
Benefits/Claims	\$	10,292,063
Administrative Services		43
Contract Services		2,375,219
Total Operating Expenses	\$	12,667,325
Operating Income	\$	7,286,934
Non-Operating Revenues		
Interest Income	\$	190,884
Total Non-Operating Revenues	\$	190,884
Income Before Transfers	\$	7,477,818
Operating Transfer From General Fund		2,610,860
Net Income/Change in Retained Earnings	\$	10,088,678
Fund Equity, July 1		_
Fund Equity, June 30	\$	10,088,678

Statement of Cash Flows	
	30-JUN-01
Cash Flows From Operating Activities	
Receipts From Customers and Users	\$ 20,190,846
Payments to Suppliers	(11,639,976)
Payments for Interfund Services Used	 (43)
Net Cash From Operating Activities	\$ 8,550,827
Cash Flows From Noncapital Financing Activities	
Operating Transfers In	\$ 2,610,860
Net Cash From Noncapital Financing Activities	\$ 2,610,860
Cash Flows From Investing Activities	
Interest Received	\$ 190,884
Net Cash From Investing Activities	\$ 190,884
Net Increase in Cash and Cash Equivalents	\$ 11,352,571
Cash and Cash Equivalents, July 1	_
Cash and Cash Equivalents, June 30	\$ 11,352,571
Reconciliation of Operating Income to Cash	
Provided by Operating Activities	
Operating Income	\$ 7,286,934
Adjustments to Reconcile Operating Income to Net Cash	
From Operating Activities	
Increase (Decrease) in Accounts Payable	\$ 1,027,306
Increase (Decrease) in Deferred Revenue	 236,587
Total Adjustments	\$ 1,263,893
Net Cash From Operating Activities	\$ 8,550,827

# REQUIRED SUPPLEMENTARY INFORMATION

The table below illustrates how the Medicare Supplement Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Medicare Supplement Insurance Fund as of the end of last year. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Fund including overhead. (3) This line shows the Fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section shows the cumulative amounts paid as of the end of successive years for each fiscal year. (5) This section shows how each fiscal year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The table shows data for the current year.

One-Year Claim Development Information (expressed in thousands)	
	2001
(1) Net earned required contribution and investment revenues	20,145
(2) Unallocated expenses	2,375
(3) Estimated incurred claims and expense, end of fiscal year	10,292
(4) Paid (cumulative) as of: End of fiscal year	9,265
(5) Reestimated incurred claims and expense: End of fiscal year	10,292
(6) Increase (decrease) in estimated incurred claims and expense from end of fiscal year	0